



# BUDGET COMMITTEE



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**For Immediate Release**

**December 16, 2009**

## **Senator Gregg: TARP “Offset” in House End-of-Year Spending Package is Pure Budget Gimmickry**

“In their last act before leaving town, House Democrats today plan to pass yet another bill that adds billions of dollars to the debt. They claim that the \$75 billion spending increase for their attempt at a stimulus package will be ‘offset’ by reducing TARP authority, which is pure budget gimmickry. Reducing unused TARP authority is not the same as reducing other spending that would have otherwise occurred. Since reducing TARP authority will not actually result in real savings, the \$75 billion cost of the jobs bill will simply be added to the mountain of debt already looming over us. The Administration’s action last week to extend TARP authority has been twisted through the budget scoring maze, and the Democrats have seized the opportunity to claim a hollow offset. Those who claim this bill is paid for and fiscally responsible are not only fooling the American taxpayers, they are fooling themselves. There is no question that this bill will be debt-financed.”

### **FREQUENTLY ASKED QUESTIONS ABOUT TARP**

#### **Q. Can rescissions of TARP authority be used as an offset for new spending?**

A. No. Section 204 of the law that created the TARP program states that “rescissions of any amounts provided in this Act shall not be counted for purposes of budget enforcement.” The authors of TARP were concerned that \$700 billion in authority for TARP purposes represented a huge piggybank of potential offsets to be diverted to unrelated purposes later, and therefore included this language to preclude that result.

#### **Q. How can the House Democrats claim TARP rescissions are an offset for purposes of budget enforcement?**

A. It appears they are making that claim despite the law; however, they face no penalty for violating this section of the TARP law.

#### **Q. Will the \$150 billion TARP rescission in H.R. 2847 count as an offset for purposes of budget enforcement in the Senate?**

A. No.

#### **Q. Can unused TARP authority be used to pay down the debt?**

A. No. Because that scenario is a logical impossibility. Here is an instructive analogy:  
You had a hurricane and your house is damaged.

You go to the bank – bank gives you a line of credit of \$20,000 for home repairs.  
You replace all your windows, costing \$10,000.  
Home inspector comes and says your roof isn't as bad as you thought; don't need to replace.  
You go back to the bank and close down line of credit.  
You tell the banker that you don't need the other \$10,000 part of your line of credit and you would like to use that unused line of credit to pay down your debt of \$10,000 that you borrowed to replace the windows.  
The banker says, no, you still have to repay the \$10,000 you borrowed.

**Q. Can unused TARP authority be used to reduce the deficit?**

A. No. It has been apparent for half a year that the Secretary is not using all available TARP authority and that deficit is already lower as a result (CBO had already provided an estimate to Congress four months ago reflecting this outcome). The Secretary can't make the deficit for 2010 go lower than it already is by virtue of not using all of the authority. But now that the Secretary has extended his authority, if a financial crisis reemerges between January and October and he has to use more of the authority than he currently expects to use, then the deficit will go up. If he instead uses the authority for some purpose unrelated to TARP, the deficit will go up as well.

**Q. What happens with the money when a bank or other entity repays TARP funds?**

A. By law, the repayments are deposited in a "non-budgetary" financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

**Q. What happens with the money when Treasury receives interest and dividends from assets it acquired through TARP?**

A. By law, the proceeds from interest and dividends are deposited in a "non-budgetary" financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

**Q. What happens with the money Treasury receives from auctioning TARP assets?**

A. By law, the proceeds from auctioning TARP assets are deposited in a "non-budgetary" financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

**Q. Can repaid TARP funds (principal, interest, dividends, warrants other proceeds) be used to offset the cost of new spending?**

A. No, the law is very clear. Secretary Geithner sent a letter on June 30 answering Senator Gregg's question about what is supposed to happen with repaid TARP funds. The letter agrees with the law, which says that repaid TARP funds and TARP proceeds can only be used to pay down the debt (sections 106 and 123 of EESA). CBO scores any legislation that attempts to use repaid TARP funds with only the cost of the new spending.

**Q. Can existing TARP authority be used to pay for infrastructure, highways, or jobs programs without Congress enacting a new law that expands the uses for which Treasury can employ TARP authority?**

A. No. EESA's states that its purpose is to provide authority that the Secretary "can use to restore liquidity and stability to the financial system" of the U.S. Moreover, EESA sets forth explicit criteria for what the Administration can do with TARP authority – namely, purchase "troubled assets" – *e.g.*, mortgages and other financial instruments – from a financial institution. Using TARP authority for highway construction or home weatherization, for instance, does not fall within the legal parameters of TARP authority.

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